AKITA DRILLING LTD.
1995 ANNUAL REPORT

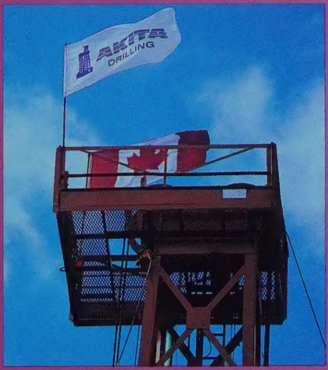
Contents

Annual Meeting:

The Annual General Meeting of Shareholders will be held at 11:00 a.m. M.D.T. on: Thursday, May 16, 1996 at the Calgary Convention Centre, 120 - 9 Ave. S.E., Calgary, Alberta. Shareholders and other interested parties are encouraged to attend.

Corporate Profile

AKITA Drilling Ltd. is an oil and gas well drilling contractor with operations throughout Western Canada. From offices in Calgary and Nisku, Alberta, AKITA employs up to 600 people operating 26 drilling rigs in all depth ranges. In addition to conventional drilling services, the Company is active in directional, horizontal and underbalanced drilling and provides specialized drilling services to a broad range of independent and multinational oil and gas companies.

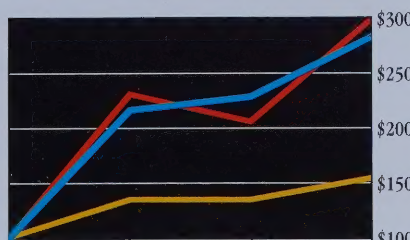


Share Performance

		1995	1994	1993
Weighted average number of Class A and Class B shares		9,120,005	9,097,005	8,088,100
Market prices for Class A Shares	High	$ 4.70	$ 5.25	$ 5.88
	Low	$ 2.30	$ 3.15	$ 0.90
	Close	$ 4.70	$ 3.80	$ 3.60
Volume		5,044,479	2,431,706	9,278,545
Market prices for Class B Shares	High	$ 4.85	$ 5.25	$ 6.00
	Low	$ 2.60	$ 3.40	$ 1.55
	Close	$ 4.85	$ 3.55	$ 3.75
Volume		69,585	89,888	303,170

"AKITA's financial position continued to improve during 1995 with the cash position exceeding $17,000,000 at year end."

THREE-YEAR TOTAL RETURN ON $100 INVESTMENT



	31 Jan 1993	31 Dec 1993	31 Dec 1994	31-Dec 1995
AKITA C1.A	$100.00	$215.57	$227.55	$281.44
AKITA C1.B	$100.00	$230.06	$205.52	$297.54
TSE 300	$100.00	$134.21	$133.97	$153.44

The graph to the left compares the cumulative return over the last three years on the Class A Non-Voting shares and Class B Common shares of the Company (assuming a $100 investment was made on January 31, 1993 at the weighted average trading price for the month of January) with the cumulative total return of the TSE 300 Stock Index over the same period, assuming reinvestment of dividends.

Letter to the Shareholders

Ronald D. Southern

Chairman of the Board

Earnings for the year ended December 31, 1995 were $6,053,000 or $0.66 per share on revenue of $57,429,000. Comparative figures for 1994 were $7,024,000 or $0.77 per share on revenue of $61,498,000. Cash flow from operations for the current year was $8,475,000 or $0.93 per share as compared to $9,184,000 or $1.01 per share in 1994. The impact of a reduction in total wells drilled compared to 1994 was partially offset by favourable dayrates. AKITA's financial position continued to improve during 1995 with the cash position exceeding $17,000,000 at year end. By maintaining a strong cash position, the Company has the flexibility to meet changing needs in the industry and capitalize on future investment opportunities as they arise.

AKITA achieved utilization rates in 1995 in excess of industry averages. These consistently high rates are the result of providing our customers with modern, well maintained equipment operated by competent, well trained personnel.

"On March 8, 1996, AKITA's Board of Directors declared an initial dividend of $0.05 per Class A and Class B share, payable to the shareholders of record on March 25, 1996 and to be paid March 29, 1996."

The Company continues to expand the scope of its training programs to ensure that it can meet the objective of providing the best customer service in the industry. The level of training that is standard on AKITA's rigs for operations, safety and environmental matters exceeds norms required for the contract drilling industry. In addition, the company sponsors a management training program for its employees.

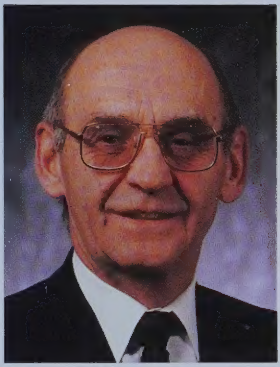
AKITA's ongoing commitment to a safe working environment has resulted in the Company again having one of the lowest accident rates in the industry. AKITA's 1995 lost time accident frequency of 1.52 accidents per 200,000 man hours worked represented a significant decrease from the prior year and reflected the third consecutive year that AKITA's lost time accident frequency was less than 60 percent of the industry average.

During 1995, significant modifications and upgrading took place on two of the Company's double rigs to enhance their competitiveness. In addition to these two rig upgrades, major maintenance was also completed on a large portion of the fleet.

Natural gas reserve development is currently constrained by deliverability, particularly to central Canada and eastern United States. This situation should begin to remedy itself by late 1997 or early 1998 with the expansion of the Northern Border pipeline currently under construction which will connect Saskatchewan to Chicago. The prospect of improved natural gas deliverability bodes well for AKITA as customers explore for additional reserves to meet future sales opportunities. With respect to oil, prices were relatively stable in 1995. Most of AKITA's customers have structured their operations to be profitable at current price levels and as a result, the outlook for oil well drilling is also positive.

On March 8, 1996, AKITA's Board of Directors declared an initial dividend of $0.05 per Class A and Class B share, payable to the shareholders of record on March 25, 1996 and to be paid on March 29, 1996. It is the Board's intention to declare and pay a dividend to the shareholders semi-annually, subject to the financial condition of the Company.

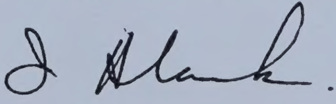
The Company very much appreciates the continuing support of its shareholders and customers as well as the reliability of its many suppliers. To these groups we express our sincere thanks. Much of the credit for AKITA's success lies with our dedicated employees to whom we offer our congratulations for a job well done. Finally, we wish to acknowledge the contribution of our directors whose wise counsel and guidance have helped to create and maintain a strong, successful Company.



John B. Hlavka

President

On behalf of the Board of Directors



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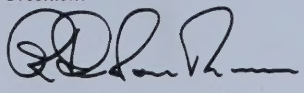


Ronald D. Southern
Chairman of the Board

AKITA has a continuing goal to ensure its fleet is the highest quality in the industry.

AKITA's business strategy is driven by a commitment to creating shareholder value through the provision of excellent equipment and high quality service.

Operations Review

BUILDING SHAREHOLDER VALUE

AKITA's business strategy is driven by a commitment to creating shareholder value through the provision of excellent equipment and high quality service. During 1995, the Company was again able to exceed industry average utilization rates, as demonstrated by the following table:

RIG UTILIZATION RATES *(Percent)*

	1995	1994	1993
AKITA	57.8	67.0	56.1
Industry	53.4	63.5	49.4

AKITA drilled 744 wells for a total of 744,000 metres or approximately seven percent of the total wells drilled in Western Canada during 1995. Most of the Company's customers are financially capable industry leaders that are active in a variety of oil and gas producing areas. It is AKITA's goal to ensure that every well drilled is professionally managed in order to develop the strongest possible working relationships with its customers.

AKITA operates a well maintained, diversified and efficient fleet of 26 drilling rigs. The following table compares the range of drilling capabilities for the Company's fleet to the industry.

DRILLING DEPTH CAPABILITY

Depth Capacity (up to)	950 Metres	1850 Metres	2450 Metres	3050 Metres	3700 Metres	6700+ Metres
AKITA (rigs)	8	3	4	5	0	6
AKITA (percentage)	30%	12%	16%	19%	0%	23%
Industry (rigs)	18	93	148	100	49	52
Industry (percentage)	4%	20%	32%	22%	11%	11%

Rob Hunt, Vice President, Sales and Marketing comments on AKITA's fleet structure and market potential: **"Our large percentage of both shallow and deep capacity equipment assures a particularly favourable exposure to shallow gas drilling which is typical of Southern Alberta and Saskatchewan, as well as deep gas drilling which occurs in the foothills and some mountain regions of Alberta and British Columbia. During the past year there was a shift toward oil well drilling as opposed to natural gas. The diversity of our fleet is well suited to meet these changing demands.**

AKITA has significant experience including heavy oil, pad well, horizontal, vertical and directional drilling. Additionally, we are in the second year of a horizontal underbalanced gas drilling program. Prospects for growth in the horizontal under-balanced market appear very promising for both oil and gas."

ONGOING COMMITMENT TO FLEET IMPROVEMENTS

AKITA has a continuing goal to ensure its fleet is the highest quality in the industry. As a consequence, the Company has an ongoing rig refurbishment program to select rigs annually for modernization and the reworking of key components. During 1995, Rig #17 was modified to be a more cost effective and efficient rig best suited to drilling relatively shallow oil and gas wells typical of the plains regions. In addition, Rig #51 had its overall capacity increased to enhance its suitability for horizontal drilling up to 2,800 metres.

It is AKITA's goal to ensure that every well drilled is professionally managed in order to develop the strongest possible working relationships with its customers.

During 1995, AKITA expended $3,655,000 on capital projects plus a further $2,089,000 on major maintenance items. Karl Ruud, Vice-President, Operations states **"I believe AKITA met its objectives for quality enhancements this past year by constructing two of the finest rigs available in the Western Canadian marketplace. Further, we have been able to satisfy our customers' needs by investing in a number of innovative projects. Some of these innovations did not require large capital outlays, such as the development of new matting to skid one of our rigs for pad drilling. Our ability to adapt to our clients' changing requirements has been a most important feature of our customer service."**

The Company plans to enhance its drilling capabilities with the acquisition of its first top drive in 1996. This will improve the efficiency of deep well drilling.

SAFETY REMAINS A TOP PRIORITY

AKITA has one of the safest working records in the Canadian drilling industry. Although AKITA's equipment standards are designed to minimize the risk of accidents, the Company's efforts are directed at ensuring that every employee, manager and subcontractor understands their responsibility for a safe working environment. Sandy Scott is a driller on Rig #40 and has 2,030 accident free days working as an AKITA employee. Sandy comments, **"Working safely requires an attitude that you carry with you daily. We work with large and powerful equipment exploring for hydrocarbons. In order to prevent problems, it's important to analyze potential hazards before they develop. We need to work together and recognize the importance of being safe and not taking short cuts. The Company knows this and stands behind doing the job right."**

A K I T A

The Company continually monitors products used and procedures followed in its operations as well as changes in regulations to ensure responsible management of environmental issues.

AKITA has drilling rigs and specialized equipment capable of servicing all depth ranges.

AKITA's lost time accident frequency, which represents lost time accidents per 200,000 man hours worked, is compared to industry in the following table:

LOST TIME FREQUENCY

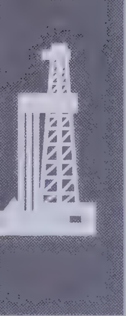
	1995	1994	1993
AKITA	1.52	1.92	1.23
Industry	2.82	4.93	4.49

WORKING COOPERATIVELY WITH THE ENVIRONMENT

Responsibility for the environment is a commitment that AKITA has made to its employees, customers and shareholders. The Company continually monitors products used and procedures followed in its operations as well as changes in regulations to ensure responsible management of environmental issues. The Company has a comprehensive environmental compliance plan which includes audits by independent consultants to verify the effectiveness of its environmental initiatives.

POISED FOR TODAY AND FOR THE FUTURE

AKITA faces a promising future in 1996 and beyond. The Western Canadian Sedimentary Basin has proven to be a dynamic region for the oil and gas service industry. AKITA's strong financial position, as reflected by the approximately $17,000,000 of cash with no long term debt at year end, assures the Company's ability to maintain its equipment in superior operating condition and weather any downturn in the industry, and provides the flexibility to capitalize on investment opportunities as they arise.



Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Company's audited financial statements and related notes contained in this annual report. The fiscal year ended December 31, 1995 is the third full year of operations for AKITA as an independent public company.

AKITA's earning potential is directly affected by utilization rates achieved (the average number of days in a year that a rig is under contract, excluding moving days) and day rates charged. The impact of a reduction in total wells drilled compared to 1994 was partially offset by favourable day rates.

FLEET AND UTILIZATION

Utilization rates are a key statistic for the drilling industry since they measure sales volume and indirectly influence pricing. During 1995, the Company was able to achieve utilization of 58% which was nine percentage points lower than the previous year but was four percentage points higher than the 1995 industry rate. Although a general industry shift from gas well drilling to oil well drilling occurred in 1995 compared to 1994, this shift in focus did not adversely affect the Company's ability to exceed industry utilization rates. For the second consecutive year, AKITA's deep capacity rigs had the highest utilization levels for the fleet.

The following table highlights AKITA's utilization rates for all depth capacities compared to 1994 and to the industry average.

UTILIZATION *(Percent)*

Depth Capacity		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	AKITA Average	Industry Average
to 950 metres:	**1995**	**74.8**	**22.7**	**46.7**	**53.8**	**49.4**	**51.6**
	1994	71.1	31.7	70.9	66.0	60.0	65.1
951 to 1850 metres:	**1995**	**73.5**	**51.9**	**74.3**	**70.5**	**67.6**	**56.1**
	1994	67.4	64.4	85.1	68.2	71.3	68.0
1851 to 2450 metres:	**1995**	**76.3**	**24.5**	**65.0**	**41.0**	**51.7**	**52.3**
	1994	75.8	42.7	78.5	71.9	67.2	62.6
2451 to 3050 metres:	**1995**	**69.7**	**47.7**	**56.4**	**56.8**	**57.6**	**50.7**
	1994	70.5	25.2	68.2	63.2	56.7	65.9
over 3050 metres:	**1995**	**78.3**	**43.0**	**77.5**	**74.9**	**68.5**	**53.9**
	1994	79.8	79.0	80.2	73.7	78.2	58.2
Total	**1995**	**74.7**	**35.9**	**61.7**	**59.2**	**57.8**	**53.4**
	1994	73.8	48.8	76.3	69.1	67.0	63.5

The drilling industry is seasonal with activity building in the fall and peaking during the winter months. The peak Canadian drilling season ends with "spring breakup", at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land. Agricultural land becomes accessible again late in the third quarter as crops are harvested. Northern transportation routes become available shortly thereafter as areas with muskeg conditions freeze to allow the movement of rigs and other heavy equipment.

REVENUE AND EXPENSES

Revenue in 1995 decreased to $57,429,000 as compared to $61,498,000 in 1994. This decrease, which was the direct result of a decrease in operating days, was partially offset by an increase in revenue per operating day from $9,892 per day in 1994 to $10,468 per day in 1995. Operating and maintenance costs vary directly with revenue and amounted to $40,856,000 or $7,447 per operating day during 1995 compared with $44,486,000 or $7,155 per operating day for the prior year.

Contribution levels are typically higher during the first and fourth quarters as additional revenue generating equipment is utilized at rig sites to facilitate drilling in colder weather and often more remote locations. The accompanying table highlights contribution levels by quarter for the last two fiscal years:

CONTRIBUTION LEVELS *(Thousands)*

		Quarters				
		1st	2nd	3rd	4th	Total
1995	**Revenue**	**$20,142**	**$8,625**	**$13,475**	**$15,187**	**$57,429**
	Operating and Maintenance Expense	**13,273**	**6,780**	**10,077**	**10,726**	**40,856**
	Contribution	**6,869**	**1,845**	**3,398**	**4,461**	**16,573**
1994	Contribution	4,310	2,269	4,553	5,880	17,012

AKITA depreciates its rigs using the unit of production method. Depreciation rose to $2,206,000 during 1995 from $1,986,000 during 1994, as a result of an increase in the overall cost base of the rig fleet arising from major upgrades during 1994 and 1995. Assets other than rigs are depreciated over their estimated remaining lives using a straight line or declining balance basis of calculation.

Selling and administrative expenses increased to $4,381,000 in 1995 from $3,750,000 in 1994. The single largest component was salaries and benefits, which accounted for 64% of these expenses during 1995 compared to 58% for the previous year. Higher personnel costs were the consequence of the payment of bonuses and salary increases consistent with the industry standard. Selling and administrative costs increased from 6.1% of total revenue during 1994 to 7.6% during 1995.

Other income increased to $1,214,000 in 1995 from $1,125,000 in 1994 due to higher interest income which was partially offset by lower dividend income.

Income tax expense decreased to $5,147,000 from $5,377,000 as a result of lower pretax earnings.

NET EARNINGS AND CASH FLOW

Net earnings decreased to $6,053,000 or $0.66 per Class A Non-Voting and Class B Common share for 1995 from $7,024,000 or $0.77 per share in 1994. Cash flow from operations decreased to $8,475,000 or $0.93 per share in 1995 from $9,184,000 or $1.01 per share in 1994. These decreases resulted from reduced drilling activity which was only partially offset by higher day rates.

LIQUIDITY AND CAPITAL RESOURCES

Capital expenditures were funded entirely out of internally generated cash flow for both 1995 and 1994. At December 31, 1995, the Company had $20,932,000 in working capital including $17,049,000 in cash, compared to $16,351,000 and $14,173,000, respectively, for the previous year.

In addition to cash reserves, AKITA has a $5,000,000 bank operating line of credit at prime interest rates secured by accounts receivable. This line was not being used at December 31, 1995. As a result of current and anticipated cash flows from operations, AKITA expects to retain a positive net cash position throughout 1996. The Company has no long term debt.

CAPITAL ASSETS

Net fixed asset additions were $3,655,000 for 1995 compared with $3,408,000 for the previous year. The Company maintained its commitment to the highest operational standards in the industry with the expenditure of $1,456,000 for upgrading and modifying Rig #17 and Rig #51. Additional rig equipment and drill pipe accounted for $1,628,000 of expenditures. During 1995, the Company

acquired its Nisku facility from a related party at a cost of $498,000. The balance of the capital expenditures related to the purchase of vehicles and other equipment. The Company had no significant disposals of equipment during 1995.

BUSINESS RISKS AND RISK MANAGEMENT

The drilling industry is cyclical and the business of AKITA is directly affected by fluctuations in the level of exploration and development activity carried on by its customers, which are affected by a number of factors, including world oil prices and North American natural gas prices and government policies. Any prolonged adjustment in energy prices or economic activity, or change in government regulation could have a significant impact on exploration and development drilling activity in Canada. AKITA's marketing program emphasizes the continuous development of long term relationships with a core base of customers who maintain active drilling programs during all phases of the economic cycle.

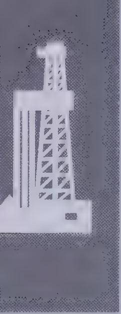
The contract drilling industry is highly competitive. AKITA is also subject to operational and environmental risks.

The Company manages its risks in these areas by:

- employing experienced and responsible employees
- improving the skills of its employees through on the job and other training programs
- maintaining an efficient fleet of rigs through an ongoing maintenance program
- continually upgrading the fleet to ensure it is modern and efficient
- maintaining comprehensive insurance policies with respect to its operations
- operating a comprehensive safety program and
- reducing environmental risk through the implementation of industry leading standards, policies and procedures.

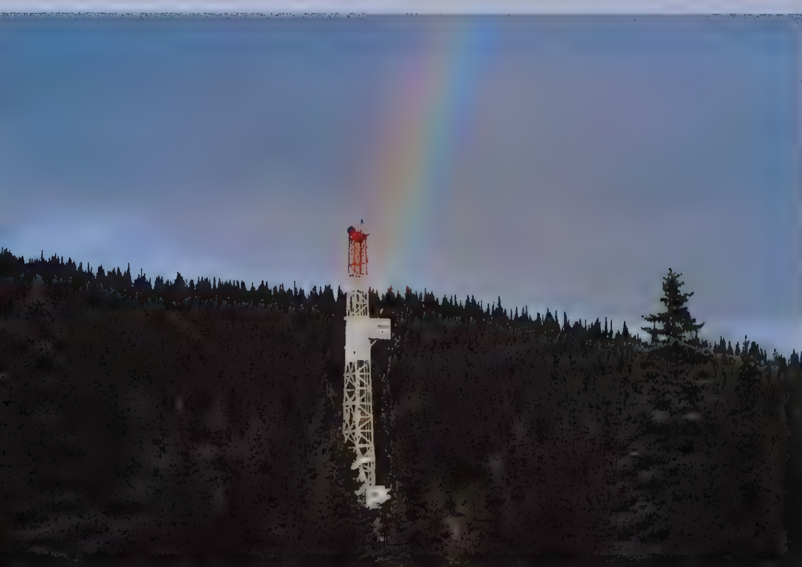
The Company is subject to federal, provincial and local environmental protection laws concerning emissions to the air, discharges to surface and subsurface waters and the handling, use, emission and disposal of materials and waste products. In Alberta, environmental compliance is generally governed by the *Alberta Environmental Protection and Enhancement Act.*

AKITA's ongoing commitment to a safe working environment has resulted in the Company again having one of the lowest accident rates in the industry.



AKITA is committed to preserving and protecting the environment and minimizing the discharge of deleterious materials into the environment in accordance with environmental protection laws and regulations. The Company verifies compliance with these laws and regulations as well as its own internal procedures through a program of regular environmental audits. Nevertheless, some risk of unintentional violation of environmental protection laws and the resulting liability is inherent in particular operations of the Company, as with other companies engaged in similar businesses.

AKITA does not expect that environmental protection laws and regulations will affect the Company's operations differently from other responsible companies in the contract drilling industry. Ongoing capital and operating costs of compliance with existing laws and regulations have not been quantified at this time but are not expected to have a material impact on the earnings or competitive position of AKITA.



The Company anticipates high activity levels during 1996 which will once again result in strong financial performance for the Company.

AKITA maintains comprehensive insurance policies with respect to its operations in amounts which it believes are adequate and in accordance with industry standards. AKITA's liability with respect to its well-site activities is limited by provisions of its agreements with oil and gas well owners and operators that either limit AKITA's liability or provide for indemnification of AKITA in certain circumstances. As a matter of policy, AKITA ensures blowout insurance has been obtained by its customers and thereby reduces its related risk.

FUTURE OUTLOOK

The drilling industry is cyclical and certain key factors, both positive and negative, which have an impact on AKITA's results are beyond management's control. AKITA is exposed to the effects of fluctuating oil and gas prices and changes in the exploration and development budgets of its customers.

During 1995, many operators shifted their drilling focus to oil rather than natural gas. During the fourth quarter of 1995 and into the first quarter of 1996, natural gas spot prices, particularly on the NYMEX exchange, while volatile, have strengthened. Should improved natural gas prices continue for a prolonged period, it is reasonable to expect increased gas drilling activity.

The varied depth capacities of AKITA's rigs allows AKITA to service all segments of the oil and gas drilling market. Prospects for continued horizontal drilling, particularly using underbalanced technologies, remain positive as producers continually seek the best available techniques to enhance production and profitability. AKITA's past investment in horizontal drilling equipment, coupled with experience in single and multi-leg horizontal wells, and underbalanced and overbalanced applications, will help to ensure that the Company maintains a strong presence in this market segment.

The drilling industry experienced high levels of activity in 1995 when compared to the industry average over the past decade. The Company anticipates high activity levels during 1996 which will once again result in strong financial performance for the Company. The current industry forecast prepared by the Canadian Association of Oilwell Drilling Contractors projects approximately 11,300 wells to be drilled in 1996, compared to 11,062 wells in 1995.

Management's Responsibility for Financial Reporting

The accompanying financial statements of AKITA Drilling Ltd., Management's Discussion and Analysis and other information relating to the organization contained in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with accounting policies detailed in the notes to the financial statements and are in conformity with accounting principles generally accepted in Canada using methods appropriate for the industry in which the Company operates. Where necessary, estimates of transactions and operations that were incomplete at year end have been made by management. Financial information throughout the Annual Report is consistent with the financial statements.

Management ensures the integrity of the financial statements by maintaining systems of internal control. These systems are designed to provide assurance that assets are safeguarded from loss or unauthorized use, that transactions are properly recorded and that the financial records are reliable for preparing the financial statements.

Price Waterhouse, the Company's independent auditors, have conducted an examination of the financial statements, which included an evaluation of internal controls to the extent they considered necessary, and have had full access to the Audit Committee. Their report appears on page 17.

The Board of Directors, through its Audit Committee comprised of three non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters and to gain assurance that management is carrying out its responsibilities.

John B. Hlavka
President

Murray J. Roth
Secretary-Treasurer

Auditors' Report

TO THE SHAREHOLDERS OF AKITA DRILLING LTD.

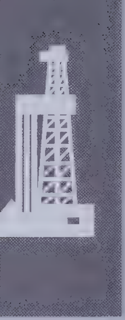
We have audited the balance sheets of AKITA Drilling Ltd. as at December 31, 1995 and 1994 and the statements of earnings and retained earnings and changes in cash position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse.

Chartered Accountants
Calgary, Alberta
March 8, 1996



Balance Sheet

(Dollars in thousands)	December 31 1995	1994
Assets		
Current assets		
Cash	$ 17,049	$ 14,173
Accounts receivable	12,535	13,752
Other	537	1,078
	30,121	29,003
Investments	364	364
Capital assets (Note 2)	14,125	12,632
	$ 44,610	$ 41,999
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 8,370	$ 8,670
Income taxes payable	819	3,982
	9,189	12,652
Deferred income taxes	2,033	1,773
Class A and Class B Shareholders' Equity		
Share capital (Note 3)	18,098	18,083
Retained earnings	15,290	9,491
	33,388	27,574
	$ 44,610	$ 41,999

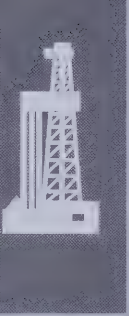
Approved by the Board

Director

Director

Statements of Earnings and Retained Earnings

(Dollars in thousands, except per share)	December 31 1995	1994
Revenue	**$ 57,429**	$ 61,498
Costs and expenses		
Operating and maintenance	**40,856**	44,486
Depreciation	**2,206**	1,986
Selling and administrative	**4,381**	3,750
	47,443	50,222
	9,986	11,276
Other income (Note 4)	**1,214**	1,125
Earnings before income taxes	**11,200**	12,401
Income taxes (Note 5)		
Current	**4,887**	5,144
Deferred	**260**	233
	5,147	5,377
Net earnings	**6,053**	7,024
Retained earnings, beginning of year	**9,491**	2,585
Refundable dividend tax	**(84)**	(118)
Cancellation of stock options	**(170)**	–
Retained earnings, end of year	**$ 15,290**	$ 9,491
Earnings per Class A and Class B share		
Basic	**$ 0.66**	$ 0.77
Fully diluted	**$ 0.63**	$ 0.73



Statements of Changes in Cash Position

(Dollars in thousands, except per share)	December 31 1995	1994
Operating activities		
Net earnings	**$ 6,053**	$ 7,024
Non-cash items included in earnings		
Depreciation	**2,206**	1,986
Deferred income taxes	**260**	233
Gain on disposal of capital assets	**(44)**	(59)
Cash flow from operations	**8,475**	9,184
Decrease (increase) in non-cash working capital	**(1,705)**	432
	6,770	9,616
Financing activities		
Issue of Class A Non-Voting shares	**15**	18
Cancellation of stock options	**(170)**	–
	(155)	18
Cash available for investing	**6,615**	9,634
Investing activities		
Capital expenditures	**(3,655)**	(3,408)
Refundable dividend tax	**(84)**	(118)
	(3,739)	(3,526)
Increase in cash	**2,876**	6,108
Cash position, beginning of year	**14,173**	8,065
Cash position, end of year	**$ 17,049**	$ 14,173
Cash flow from operations per Class A and Class B share		
Basic	**$ 0.93**	$ 1.01
Fully diluted	**$ 0.88**	$ 0.95

Notes to Financial Statements

December 31, 1995

(Tabular amounts in thousands of dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition on contracts

Revenue resulting from the supply of contracted services is recorded by the percentage of completion method. Any anticipated loss is provided for in its entirety when the estimated loss is identified.

Depreciation

Drilling rigs are depreciated using the unit of production method based on the estimated life of each rig, in days, as determined by the Company. Replacement drill pipe and other ancillary drilling equipment are depreciated using a straight-line basis at rates varying from 6% to 12.5% per annum. Buildings, furniture, fixtures and equipment are depreciated using the declining balance method at rates varying from 10% to 25% per annum.

Investments

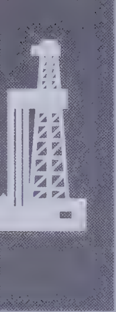
The Company records ownership of its investment in Western Rock Bit Company Limited, a private company, at cost. The Company also has an investment in a Joint Venture, AKITA Equtak Drilling Ltd. which it records using the proportionate method of consolidation. The joint venture was inactive during 1995 and 1994.

Comparative Figures

Certain comparative figures have been reclassified to conform with the current year presentation.

2. CAPITAL ASSETS

	1995		1994	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Drilling rigs and related equipment	**$18,088**	**$4,900**	$15,003	$2,936
Other	**1,452**	**515**	860	295
	$19,540	**$5,415**	$15,863	$3,231
Net Book Value	**$14,125**		$12,632	



3. SHARE CAPITAL

Authorized

An unlimited number of Series Preferred shares, issuable in series, designated as First Preferred Shares

An unlimited number of Series Preferred shares, issuable in series, designated as Second Preferred Shares

An unlimited number of Class A Non-Voting Shares

An unlimited number of Class B Common Shares

Issued

	Class A Non-Voting		Class B Common		Total	
	Number of Shares	Consideration	Number of Shares	Consideration	Number of Shares	Consideration
December 31, 1993	8,247,894	$16,683	836,727	$1,382	9,084,621	$18,065
Stock option plans	20,000	18	–	–	20,000	18
Conversions Class B to Class A	3,750	7	(3,750)	(7)	–	–
December 31, 1994	8,271,644	16,708	832,977	1,375	9,104,621	18,083
Stock option plans	20,000	15	–	–	20,000	15
Conversions Class B to Class A	50	–	(50)	–	–	–
December 31, 1995	**8,291,694**	**$16,723**	**832,927**	**$1,375**	**9,124,621**	**$18,098**

Each Class B Common share may be converted into one Class A Non-Voting share at the shareholders' option. If a takeover bid is made for the Class B Common shares, holders of Class A Non-Voting shares are entitled, in certain circumstances, for the duration of the bid, to exchange each Class A Non-Voting share for one Class B Common share for the purpose of depositing the resulting Class B Common shares pursuant to the terms of the takeover bid. The two classes of shares rank equally in all other respects.

The Company has established a stock option plan for directors, officers, key employees and other persons providing services to the Company. At December 31, 1995, 604,000 options to acquire an equivalent number of Class A Non-Voting shares were outstanding. The options are exercisable cumulatively over periods of up to 10 years from the date of grant at prices ranging from $0.76 to $4.55 per share. These options expire at various dates to 2004. During the year, 46,000 options were cancelled for compensation.

Basic earnings per share and cash flow per share have been calculated on the basis of the weighted average number of Class A Non-Voting and Class B Common shares outstanding during the year. Fully diluted earnings per share and fully diluted cash flow per share have been calculated using the weighted average number of Class A Non-Voting and Class B Common shares that would have been outstanding had all of the stock options been exercised at the beginning of the year.

4. OTHER INCOME

	1995	1994
Interest	$ 919	$ 593
Dividends	251	473
Gain on sale of capital assets	44	59
	$ 1,214	$ 1,125

5. INCOME TAXES

The income tax provision differs from that which would be computed using the statutory rates. A reconciliation of the differences is as follows:

	1995	1994
Earnings before income taxes	$11,200	$ 12,401
Income tax at statutory rate of 45%	5,040	5,580
Add (Deduct):		
Dividend income	(113)	(213)
Other	220	10
Income tax provision	$ 5,147	$ 5,377

6. RELATED PARTY

The Company is affiliated to the ATCO Group of companies through its majority shareholder. The accompanying table summarizes transactions and year end balances with those affiliates. These transactions were in the ordinary course of business and were considered to be at fair market value.

	1995	1994
Revenue	$ 250	$ 653
Purchases		
Capital	498	–
Operating	141	208
Year end accounts receivable	–	234
Year end accounts payable	9	8

7. PENSION

The Company has a defined contribution Pension Plan which covers substantially all of its employees. Under the provisions of the Plan, the Company contributes 5% of regular earnings for eligible employees on a current basis.

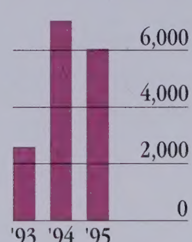
8. COMMITMENT

The Company leases its office space at an annual cost of approximately $54,000 per year. Lease expiry will occur in 1999.

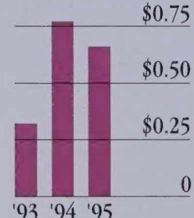
Financial Review from the Commencement of Operations

(Dollars in thousands, except per share)	**1995**	1994	1993
Summary of Operations			
Revenue	**$ 57,429**	$ 61,498	$ 44,142
Earnings before income taxes	**$ 11,200**	$ 12,401	$ 4,751
Income taxes	**$ 5,147**	$ 5,377	$ 2,166
Net earnings	**$ 6,053**	$ 7,024	$ 2,585
As a percentage of average shareholders' equity	**19.8%**	29.1%	15.5%
Earnings per Class A and Class B share	**$ 0.66**	$ 0.77	$ 0.32
Cash flow from operations	**$ 8,475**	$ 9,184	$ 4,458
As a percentage of average shareholders' equity	**27.8%**	38.1%	26.8%
Cash flow per Class A and Class B share	**$ 0.93**	$ 1.01	$ 0.55
Financial position at year end			
Working capital	**$ 20,932**	$ 16,351	$ 10,675
Current ratio	**3.28:1**	2.29:1	2.38:1
Total assets	**$ 44,610**	$ 41,999	$ 29,937
Shareholders' equity	**$ 33,388**	$ 27,574	$ 20,650
Per share	**$ 3.66**	$ 3.03	$ 2.27
Other			
Capital expenditures	**$ 3,655**	$ 3,408	$ 1,737
Depreciation	**$ 2,206**	$ 1,986	$ 1,254

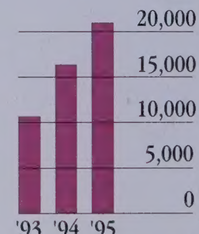
Net Earnings



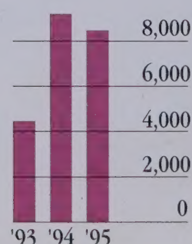
Earnings per Class A and Class B Share



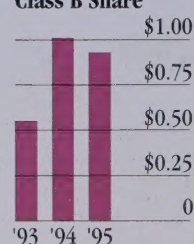
Working Capital



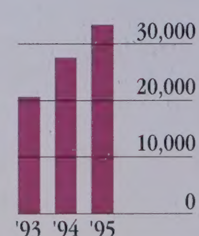
Cash Flow



Cash Flow per Class A and Class B Share



Shareholders' Equity



Corporate Information

DIRECTORS

William L. Britton, Q.C.
Partner, Bennett Jones Verchere, Deputy Chairman of the Board of the Corporation, Calgary, Alberta

Linda A. Heathcott
Vice President, Spruce Meadows Manager of Spruce Meadows Horse Program and Professional Rider, Calgary, Alberta

John B. Hlavka
President of the Corporation, Calgary, Alberta

Cameron S. Richardson
Senior Vice-President, Finance and Chief Financial Officer, ATCO Ltd. and Deputy Chairman of the Board and Chief Financial Officer, Canadian Utilities Limited, Calgary, Alberta

Dale R. Richardson
Vice President, Sentgraf Enterprises Ltd., Calgary, Alberta

Margaret E. Southern, O.C., L.V.O., LL.D.
President, Spruce Meadows, Calgary, Alberta

Nancy C. Southern
Chairman, Team Spruce Meadows Inc., Calgary, Alberta

Ronald D. Southern, C.M., C.B.E., LL.D.
Chairman of the Board and Chief Executive Officer, ATCO Ltd., and Chairman of the Board and Chief Executive Officer, Canadian Utilities Limited, Chairman of the Board of the Corporation, Calgary, Alberta

C. Perry Spitznagel
Partner, Bennett Jones Verchere, Calgary, Alberta

OFFICERS

John B. Hlavka
President

Robert J. Hunt
Vice President, Sales and Marketing

Murray J. Roth
Secretary-Treasurer

Karl A. Ruud
Vice President, Operations

HEAD OFFICE

AKITA Drilling Ltd.,
#1110, 505-3rd Street S.W.,
Calgary, Alberta T2P 3E6
(403) 292-7979

BANKER

Alberta Treasury Branches,
Calgary, Alberta

COUNSEL

Bennett Jones Verchere,
Calgary, Alberta

AUDITORS

Price Waterhouse,
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

R-M Trust Company
Calgary, Alberta and Toronto, Ontario

SHARE SYMBOL/TSE

Class A Non-Voting (AKT.A)
Class B Common (AKT.B)

AKITA Drilling Ltd.
#1110, 505-3rd Street S.W.
Calgary, Alberta T2P 3E6
(403) 292-7979